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Keystone-Arthur Telephone Company

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APR 12 1996

April 8, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Dear Mr. Caton:

RE: Comments of the Keystone-Arthur Telephone Company in CC Docket 96-45 Federal-State Joint Board on Universal Service

Enclosed are the original and nine copies of the comments of the Keystone-Arthur Telephone Company in the Notice of Proposed Rulemaking and Order Establishing Joint Board in CC Docket No. 96-45.

Please indicate receipt by stamping the copy that is in the self-addressed stamped envelope and returning to us. Thank you for considering the views of our rural customers in this very important proceeding.

Respectfully submitted,

William B. Hill

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Before the
Federal Communications Commission
Washington, D.C. 20554

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In the Matter of)
)
Federal-State Joint Board on) CC Docket No. 96-45
Universal Service)
)

**Comments of Keystone-Arthur Telephone Company in
NOTICE OF PROPOSED RULEMAKING AND ORDER
ESTABLISHING A JOINT BOARD**

The Keystone-Arthur Telephone Company (KATCO) hereby respectfully submits its comments to the Commission and Joint Board in this important proceeding for rural customers. The decisions that will be formulated by the Joint Board and then adopted by the Commission have far-reaching impacts on our nearly 600 customers that are dispersed over our 550 square mile service territory.

We appreciate the opportunity to offer these comments for the consideration of the Joint Board members and the Commission. We have served customers that no one else chose to serve for 75 years. We hope that the needs of these tax-paying, hard-working Americans are not cast aside as we transition "to provide for a pro-competitive, deregulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies to all Americans." ¹

¹S. Conf. Rep. No. 104-230, 104th Cong., 2d Sess. 1 (1996).

An executive summary of the comments of the Keystone-Arthur Telephone Company in this proceeding is as follows:

- 1) At least a five-year transition period will be required in order to mitigate the impact on rural, high-cost customers of a shift to explicit support mechanisms.
- 2) ALL providers of communications services should contribute to all explicit funding mechanisms. Simply put, if you play, you pay.
- 3) Separate explicit fund mechanisms should be used by the Commission and states to fund universal service needs for high cost; schools, libraries, and health care; and low income consumers.
- 4) In a competitive environment, it is acceptable to require recipients of explicit funding mechanisms to meet reasonable criteria.
- 5) Any measurement index for affordability should reflect regional, or preferably local circumstances.
- 6) The existing interstate administration provided by the National Exchange Carrier Association (NECA) mechanism could provide the most cost-effective fund administration on a going-forward basis.

I. THE COMMISSION AND JOINT BOARD SHOULD CONSIDER AN APPROPRIATE TRANSITION PERIOD IN ORDER TO AMELIORATE THE RATE IMPACT ON HIGH COST CUSTOMERS.

Competition makes it at best problematic to sustain the current implicit subsidies that have served to recover the true cost of providing service in high-cost areas of our country. KATCO's service area is one of these high-cost areas - as we have some customers that are over 35 miles away from the central office. We trust that public policy will continue to enable affordable service to be provided to such customers.

At present, KATCO customers pay a R-1 rate of \$11.50, which is near the state average. However, our rural customers currently realize a benefit of \$50.52 per month² from the existing Universal Service Fund and DEM support mechanisms.

We recommend that the Commission and Joint Board consider a five-year transition period for companies with less than 10,000 access lines related to revenue deficiencies that may result from any changes to existing universal service support mechanisms.

²USF benefit of \$18.53; Weighted DEM impact of \$31.99

II. ALL PROVIDERS OF COMMUNICATIONS SERVICES SHOULD CONTRIBUTE TO ALL EXPLICIT UNIVERSAL SERVICE FUNDING MECHANISMS.

With respect to the language found at paragraph 119 of the NPRM, we recommend that the Commission and Joint Board "impose universal service support obligations more broadly, as Section 254(d) of the Act authorizes..." We believe that this is necessary to comport with the Act's Section 254(b)(4) that specifies all providers should make an equitable and nondiscriminatory contribution to preserve and advance universal service.

We recommend that as an initial starting point that the Commission and Joint Board consider applying the TRS model for universal service funding that would include as payors, but not be limited to: LECs, IXC's, RHCs (electric or gas), cellular telephone and paging companies, personal communications services, resellers, 900 services, and satellite and video companies.

We further assert that any exemptions to a carrier or class of carriers should be the exception. For example, a class of carriers such as Registered Holding Companies that include 13 electric utilities and 2 gas companies represent over \$46 Billion of annual operating revenue, and almost \$132 billion in consolidated assets according to 1994 FERC statistics. These well-capitalized new entrants should not be entitled to any exemption, as it would indeed be absurd to exempt such a group from their universal service obligation.

III. ANY EXPLICIT FUNDING MECHANISMS FOR THE DISTINCT UNIVERSAL SERVICE NEEDS OF HIGH-COST AREAS; SCHOOLS AND LIBRARIES; HEALTH CARE; AND LOW INCOME CUSTOMERS SHOULD BE SEPARATE AND DISTINCT.

KATCO believes it would be advisable to develop separate and distinct universal service funding mechanisms for each of the four needs noted above as each will be different from a definitional, and quite possibly a provider perspective.

- Definitional Issues

KATCO supports a service offering package that should initially be considered as the definition of universal service that includes: voice grade access to the public switched network that permits a residential or business customer to place and receive calls, via single-party, touchtone (DTMF) service; white page directory listing; access to directory assistance, operator, and emergency services. We submit that such a definition meets the criteria found in Sec. 254(c)(1). States should be permitted to expand this definition if they are willing to provide funding sources.

With respect to service to schools, we encourage policy makers to carefully evaluate who pays for the entire cost of service in the quest for educational equality. The communications path(s) itself from the school to the public switched network is a small percentage of the total cost when one considers the requisite hardware, software, and training concomitant to the desired offerings.

- Different Markets, Different Menu of Providers

There may well be more interest in serving a school, for instance, than a customer at the border of the existing service boundary. [Certificated service territory may well become a difficult Trivial Pursuit answer three decades from now.]

Along the same line, we doubt that there will be multiple providers in traditional low-income service areas.

We believe that separate funds for each targeted group will be simpler to administrate and increase the probability that each fund will meet its public policy objectives.

IV. IN A COMPETITIVE TELECOMMUNICATIONS ENVIRONMENT, IT IS INDEED REASONABLE FOR REGULATORS AND PUBLIC POLICY MAKERS TO EXPECT THAT ANY RECIPIENTS WILL BE ABLE TO JUSTIFY THEIR USE OF SUCH SUPPORT.

We are concerned about the actual specifics of how such rules would be implemented in the very political intrastate regulatory arena. Those concerns aside, however, we cannot argue plausibly against the provisions of Section 254(k) that calls for the Commission "with respect to interstate services. . . and the states with respect to intrastate services, . . . [to] establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services."

In rural areas, we recognize that multiple carriers will only be permitted if the public interest test is met. If so, those carriers should be required to receive support based upon their own costs. Or in the alternative, rural companies should also have the option "to deaverage" cost data if used for support calculation to prevent creamskimming and arbitrage by new entrants.

We will review with interest the comments filed and address these cogent issues in more detail in the reply phase of the proceeding.

V. ANY AFFORDABILITY BENCHMARK SHOULD REFLECT AT LEAST REGIONAL, IF NOT STATE-SPECIFIC OR PREFERABLY LOCAL CONDITIONS

As the Commission has incorporated the prior record from the CC Docket No. 80-286 proceeding, the concept of affordability benchmarks is a part of this instant proceeding. KATCO endorses the concept of an affordability benchmark.

We recommend that any affordability benchmark concept adopted disaggregate income to a study area basis. Thus, the costs of providing core universal services incurred by eligible carriers that exceed the benchmark would be considered as high cost and produce unaffordable rates. The benchmark should also reflect calling scope differences between rural and urban areas.

For example, using a benchmark of one percent of the national median income would create a benchmark of \$28 per month³. In some regions of the country, one percent of median income would be substantially lower than \$28. Further, given that Americans spend on average roughly 2 to 2.5 percent of income on total telecommunications services, consideration should also be given to recognizing the proportionately higher toll volumes necessary for rural customers to obtain goods and services.

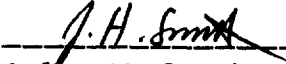
³FCC Trends in Telecommunications, May 1994, Table 8 at p.13

VI. THE EXISTING NECA ADMINISTRATIVE FUNCTIONS IS EASILY ADAPTABLE TO THE NEW ORDER OF SPECIFIC EXPLICIT UNIVERSAL SERVICE SUPPORT MECHANISMS.

Given the magnitude of the implementation task at hand, it would seem prudent to ascertain which, if any, of the current industry mechanisms is able to be adapted to this brave new world ushered in by the Telecommunications Act of 1996.

One obvious area where such an efficiency exists is within the current administration of the existing Universal Service Funds and TRS by the National Exchange Carrier Association (NECA). NECA has demonstrated, as the current administrator of the TRS fund, that is indeed qualified to handle any new challenges that would be imposed by additional universal service support mechanisms that are developed as a part of implementing the Act.

Respectfully submitted,



Jeffrey H. Smith
KATCO
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April 8, 1996

Certificate of Service

I, Susan R. Smith, certify that I have mailed via first-class mail, postage prepaid, a copy of the foregoing comments to the attached service list.

Susan R. Smith

Susan R. Smith

Attachment: Service List

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